

Message Text

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PAGE 01 OTTAWA 05016 132348Z

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 FEA-01 CIAE-00 DODE-00
NSAE-00 NSCE-00 SSO-00 USIE-00 INRE-00 ERDA-05
AID-05 CEA-01 COME-00 EPG-02 FPC-01 H-01 INR-07
INT-05 L-03 NSC-05 OMB-01 PM-04 OES-07 SP-02
SS-15 STR-04 TRSE-00 ACDA-07 /096 W
-----132350Z 055489 /65

O 132341Z JUN 77

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC IMMEDIATE 3808

C O N F I D E N T I A L OTTAWA 05016

E.O. 11652:GDS

TAGS: ENRG; CA

SUBJECT: CANADIAN GAS EXPORT PRICES

REF: STATE 136151

1. CONTACTED EMR MINISTER GILLESPIE THIS EVENING TO MAKE POINTS IN REFTEL. I TOLD GILLESPIE THAT WE COULD UNDERSTAND THE CONCEPT OF REPLACEMENT VALUE AS SET FORWARD IN THE TWO ALTERNATIVE PRICE CALCULATIONS PRESENTED, BUT COULD NOT ENDORSE IT. CANADA CANNOT SELL ITS GAS IN MONTREAL BUT MUST SELL IT TO US, AND TIGHT LINK BETWEEN COMMODITY PRICES COULD BE AN UNFORTUNATE PRECEDENT.

2. U.S. WOULD OBJECT (I TOLD GILLESPIE) TO EITHER TWO PRICING OPTIONS CANADA IS NOW PUTTING FORWARD. U.S. DOLLARS 2.24 IS BASED ON AN ESTIMATED OIL PRICE INCREASE WHILE U.S. DOLLARS 2.16 IS BUILT AROUND A MECHANISM FOR QUARTERLY OR SEMI-ANNUAL ADJUSTMENTS. U.S. DOES NOT SEE WHY PRICE IT PAYS MUST BE ADJUSTED IN ADVANCE OR IMMEDIATELY FOLLOWING ANY CHANGE IN WORLD OIL PRICES, WHEN CANADA HAS NO INTENTION OF MAKING SIMILAR ADJUSTMENTS IN ITS DOMESTIC GAS PRICES. CANADIANS SHOULD BE
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PAGE 02 OTTAWA 05016 132348Z

AWARE THAT THERE WOULD BE A STRONG CONGRESSIONAL AND CONSUMER REACTION TO A MAJOR JUMP (AS TO DOLLARS 2.25) AND THAT QUARTERLY OR SEMI-ANNUAL ADJUSTMENTS WOULD REQUIRE CONSTANT FPC HEARINGS ON CANADIAN GAS PRICES, THUS CONSTITUTING AN ONGOING IRRITANT IN OUR RELATIONS.

3. I ASKED GILLESPIE WHETHER A WAY COULDN'T BE FOUND

TO PHASE IN A PRICE REFLECTING CURRENT REPLACEMENT VALUE WITHOUT ANTICIPATING FUTURE PRICE INCREASES OR PROVIDING AN INDEXING MECHANISM. THAT WOULD GIVE U.S. CONSUMERS A YEAR'S STABILITY AT A MORE DEFENSIBLE PRICE. U.S. ADMINISTRATION COULD NOT ENDORSE THOSE PRICES, BUT COULD WORK TO CONTAIN THE REACTION. OTHERWISE, ADMINISTRATION MIGHT FIND ITSELF IN POSITION OF HAVING TO JOIN THE ATTACK AGAINST THE CANADIAN ACTION.

4. GILLESPIE SAID HE WOULD MAKE NO PROMISES, BUT WOULD CONSIDER SERIOUSLY OUR POSITION.

5. SUBSEQUENTLY CALLED EXTAFF DEPUTY UNDER SECRETARY TOWE AND MADE THE SAME PITCH. TOWE SAID HE COULD SEE THE ARGUMENTS AND EXPRESSED SOME SYMPATHY, BUT MADE NO COMMITMENT.

6. WILL TAKE A FURTHER READING AFTER CABINET COMMITTEE CONSIDERATION TOMORROW, JUNE 14. FULL CABINET CONSIDERATION IS SCHEDULED FOR JUNE 16, AND THERE MAY BE AN OPPORTUNITY FOR A FURTHER DEMARCHE. ENDERS

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